

Meeting Date: 09/30/08

AGENDA REPORT

City of Santa Clara, California

Agenda Item # 12A



Date: September 24, 2008

To: City Manager for Council Action

From: Assistant City Manager

Subject: City of Santa Clara Concurrence to create a Memorandum of Understanding and Revenue Sharing Agreement with the City of San Jose Regarding the Intent of the City of San Jose and Tesla Motors to Site a Manufacturing Plant on San Jose/Santa Clara Water Pollution Control Plant Buffer Lands

EXECUTIVE SUMMARY:

Background

In mid-August 2008, City of San Jose staff received approval from the San Jose/Santa Clara Treatment Plant Advisory Committee (TPAC) to authorize the San Jose City Manager to initiate discussion with Tesla Motors regarding the potential use of a portion of the buffer lands associated with the Water Pollution Control Plant (WPCP) for a future manufacturing, research and development site. WPCP is a jointly owned facility. In 1959, the cities of Santa Clara and San Jose entered into a Joint Powers Authority and are co-owners of the WPCP lands. Both cities must approve any disposition of these lands to third parties for non-Plant purposes. In addition, disposition of Plant lands to third parties for non-Plant purposes is subject to the 1983 wastewater treatment Tributary Agency Agreement among the cities of San Jose, Santa Clara, Milpitas and the sanitation districts of Cupertino, West Valley, Burbank and Sunol. Under this agreement TPAC advises the San Jose and Santa Clara city councils on matters affecting the WPCP, including matters related to WPCP lands. The TPAC consists of representatives of the joint owners and the tributary agencies.

Plant ownership allocations are based on a formula derived from the relative assessed valuations of property within each jurisdiction. Based on this formula, the City of Santa Clara's current proportional ownership is approximately 16.0%. The City of San Jose's ownership control is approximately 66.0%. The remaining 18.0% allocation is controlled by the tributary agencies.

Tesla Motors

Tesla Motors was founded in San Carlos in 2003 with the goal of producing high performance all-electric vehicles. Tesla Motors is considering the development of the first commercially viable all-electric zero emission vehicle on 89 acres of WPCP buffer lands (see map – Exhibit A). Tesla would lease the property for a period of 40 years. Tesla is proposing to construct 600,000 square feet of manufacturing space, 120,000 square feet of headquarters and research space in a phased development and provide approximately 1,000 jobs on site by 2012. Tesla projects a potential output of 20,000 vehicles per year.

In order to proceed with the Tesla lease negotiations, the cities of Santa Clara and San Jose need to negotiate and execute an agreement allowing for the long-term lease of WPCP buffer lands and defining the revenue

TO: City Manager for Council Action

SUBJECT: City of Santa Clara Concurrence to create a Memorandum of Understanding and Revenue Sharing Agreement with the City of San Jose Regarding the Intent of the City of San Jose and Tesla Motors to Site a Manufacturing Plant on San Jose/Santa Clara Water Pollution Control Plant Buffer Lands

September 24, 2008

Page 2

sharing opportunities from real property taxes and sales/use taxes between the two cities. TPAC would need to recommend any agreement between the cities. In addition, the Milpitas City Council and the boards of the tributary agency sanitation districts would need to approve amendments to their respective Tributary Agency Agreements. The City of San Jose is the lead agency in this venture as the WPCP property is in the City of San Jose. Members of the City of San Jose Office of Economic Development will be in attendance at the September 30, 2008 Santa Clara Council meeting to answer any questions.

ADVANTAGES AND DISADVANTAGES OF ISSUE:

In February 2007, Tesla announced that it would manufacture their Model S four-door sedan in New Mexico. Governor Schwarzenegger and Treasurer Bill Lockyer offered Tesla a package of State incentives that persuaded Tesla to consider a California plant location. There were a number of Bay Area sites in consideration. The City of Santa Clara was not a part of the site evaluation process, nor does the City have 89 acres of public land to contribute to project siting. In August, Tesla commenced discussion of locating at the WPCP site with San Jose staff. Tesla's location on the northern edge of both Santa Clara and San Jose enhances the strong high tech/clean tech activity in this area. The development of electric vehicles is synergistic with the surrounding area semi-conductor and electronics industries as well as attracting additional R&D development and service and supply companies. Some of the issues pertaining to the proposed lease and the benefits of having a manufacturing facility on WPCP lands are attached to this report (Exhibit B).

ECONOMIC/FISCAL IMPACT:

While the revenue sharing agreement between the cities of Santa Clara and San Jose is in the development stage, it is currently proposed that the Treatment Plant could receive lease revenues from the land lease to offset ratepayer contributions to plant operations. Keyser Marston & Associates (KMA) provided the fiscal/economic analysis for the City of San Jose. Santa Clara's share of this lease revenue is estimated at approximately \$9 million in nominal value and \$3 million in net present value over the 40-year term of the lease. The City of San Jose may pay development fees and additional costs (i.e., infrastructure type costs) on behalf of Tesla and thereby would reimburse their General Fund from San Jose's share of initial lease revenues. No other plant participant will be requested to pay any of the additional costs that may be needed. KMA has estimated regional economic benefits tied to the proposed manufacturing facility in the range of \$2 billion annually resulting from manufacturing and R&D jobs, wages and investments made by Tesla.

Santa Clara and San Jose staffs have not yet estimated the possible revenues from real estate property taxes and sales/use tax from the proposed plant. These estimates will be produced in the ongoing efforts to create a revenue sharing agreement between the cities. Any final proposed agreement would return to the Santa Clara Council for approval.

TO: City Manager for Council Action

SUBJECT: City of Santa Clara Concurrence to create a Memorandum of Understanding and Revenue Sharing Agreement with the City of San Jose Regarding the Intent of the City of San Jose and Tesla Motors to Site a Manufacturing Plant on San Jose/Santa Clara Water Pollution Control Plant Buffer Lands

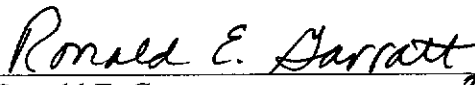
September 24, 2008

Page 3

RECOMMENDATION:


That the Council authorize the City Manager to negotiate a Memorandum of Understanding and Revenue Sharing Agreement with the City of San Jose thereby facilitating the ground leasing of 89-acres of San Jose/Santa Clara Water Pollution Control Plant buffer lands to Tesla Motors for the construction of a manufacturing plant and the production of all-electric vehicles.

APPROVED:



Ronald E. Garratt

Assistant City Manager



Jennifer Sparacino
City Manager

Documents Related to this Report:

- 1) *Exhibit A – Site Map*
- 2) *Exhibit B – “Proposed Tesla Manufacturing Plant Issues”*

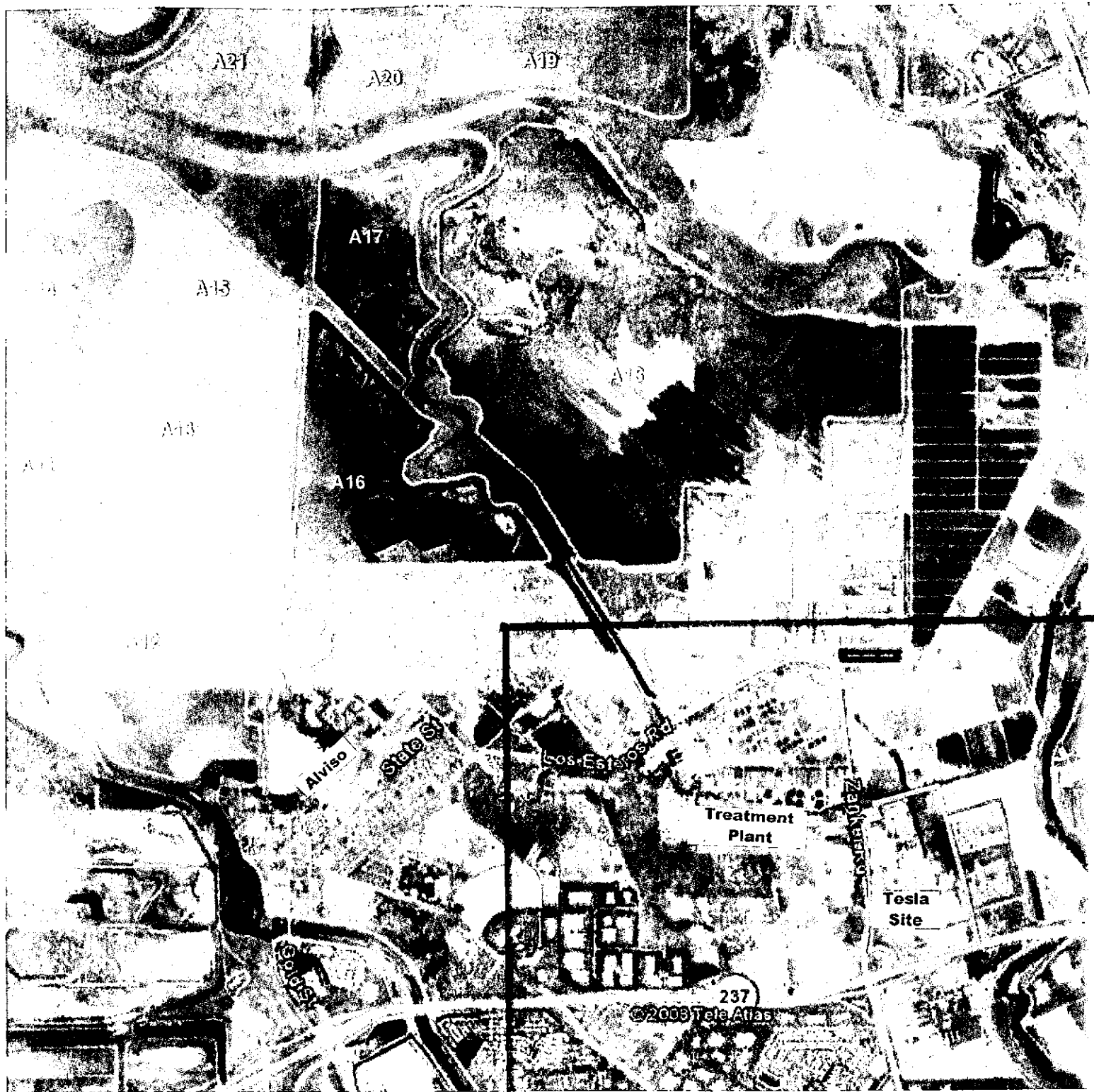


EXHIBIT "A"

Proposed Tesla Manufacturing Plant Issues

Tesla" Proposed Expansion

- Seeking 89 acres for a 40 year lease
- Proposing a campus that includes corporate headquarters, research and development, and production for Model S sedan, including assembly, paint, and detailing.
- 600,000 square feet of manufacturing, 120,000 square feet for R&D and HQ

Tesla Development

- Projected Jobs 800-1,000 by 2010 with average wages of \$13.50/hr - \$55/hr plus benefits for assembly manufacturing workers and over \$100,000 for engineering and HQ operations.
- Manufacturing 20,000 Sedan Units annually by 2010

Proposed Deal Structure

- 10 years free rent of 89 acre property.
- Year 11-20, Tesla to pay \$1.5 M annually in rent.
- Year 21+ Tesla to pay annual CPI 2%-3%
- Free rent seen as a benefit to Tesla only, if during the first 10 years the company is purchased, the purchaser will pay rent at the rate of \$1.5M /year, plus \$1.5 M for a total of \$3M per year until such time the suspended rent is fully paid. Additional rent to be distributed proportionately to land owners and tributary agencies.
- If for any reason, Tesla is dissolved, land owners may specify a market rate rent for the leasehold, rate to be established at that time, first right of refusal to purchase building(s) if sold, option to demolish buildings at owners request to retain maximum flexibility for subject land.
- Timely development is of major importance. Construction must be initiated before December 31, 2012 or the City/owners may use land for other purposes. If by the end of 2022, there is any unused contiguous portion of the land that is greater than 25 acres, then that land portion will revert back to land owners and rent payable by the Company will be decreased proportionately.

Benefits of Having Tesla at the Water Pollution Control Plant

- Tesla will generate approximately \$2 billion for total annual economic impact to the local economy.
- Demonstration that SJ/Silicon Valley can attract significant Clean Tech manufacturing jobs.
- Regional benefits to San Jose and neighboring cities from name recognition and job generation.
- Total regional job impact to be approximately 3,600
- Major accomplishment in terms of attracting clean tech jobs.
- 800-1,000 jobs in manufacturing, assembly, R&D and HQ jobs.
- Assembly and manufacturing well paying jobs with benefits
- 700 construction jobs
- Suppliers and service companies and jobs needed to support Tesla will benefit the region.